



Name:

Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2022

Course: Airline Economics

Program: MBA -AVM

Course Code: TRAV-8017

Semester: III

Time : 03 hrs.

Max. Marks: 100

Instructions: This questions paper has four sections A, B, C & D. You are required to attempt all the sections. Please read the instructions given with the respective sections carefully.

SECTION A
10Qx2M=20Marks

S. No.	Attempt all the questions. Each question carries equal marks.	Marks	CO
Q	Statement of question		CO1
Q 1	Purchase of an air transportation involves a. Geographical Market b. Service Market c. Either option 'a' or 'b' d. Both	02	CO1
Q 2	Customer value includes a. Cost of the product b. Consumer's appraisal c. Price of the product d. All the them	02	CO1
Q 3	Distance-weighted traffic measurements are a. Function of neither enplanements nor average journey length b. Function of either enplanements or average journey length c. Function of both enplanements and average journey length d. Either Option 'b' or Option 'c'	02	CO1
Q 4	If long-haul international business: -0.265, long-haul international leisure: -1.04, long-haul domestic business: -1.15, long-haul domestic leisure: -1.104, short-haul business: - a. Long-haul international business is the least elastic segment b. Short-haul business is the least elastic segment c. Short-haul leisure is the most inelastic segment d. Long-haul domestic business is the unitary elastic segment	02	CO1
Q 5	Separate service packages are specifically designed and price for different segments'. The given statement represent which type of pricing structure : a. Discriminatory pricing structure b. Uniform pricing structure c. Differential pricing structure d. Tactical pricing structure	02	CO1

Q 6	Demand is generally taken to be ----- associated with increased distance between origin and destination a. Negatively b. Positively c. No relation d. None of them	02	CO1
Q 7	Which of the following does not contribute to the airline operating revenues a. Fare b. Fuel Surcharge c. Other charges and fees that the airline is not legally obliged to levy and pay through to an airport or government authority d. Taxes, charges and fees that the airline is legally obliged to levy and pay through to an airport or government authority	02	CO1
Q 8	Fares per mile are generally ----- for long haul than short haul routes because unit costs taper as stage length ----- . Please fill in the blanks a. Lower and decreases b. Lower and increases c. Higher and increases d. Higher & decreases	02	CO1
Q 9	Operating revenue can rise even if yield is falling. This statement holds true in which of the following situations: a. Provided that traffic declines faster than yield declines b. Provided that traffic declines faster than yield increases c. Provided that traffic increases faster than yield increases d. Provided that traffic grows faster than yield declines	02	CO1
Q 10	Seat mile is calculated as a. Aircraft-mile cost/available seats b. Trip cost/ASM produced c. Either Option '1' or '2' d. Option '1' and '2' Both	02	CO1
SECTION B 4Qx5M= 20 Marks			
Q	Attempt any four questions. Each question carries equal marks.		CO2
Q 11	Difference between excess output and spoilage.	05	CO2
Q 12	Differentiate between High Yield Passengers and Low Yield Passengers.	05	CO2
Q 13	Discuss Airlines as an undifferentiated product?	05	CO2
Q 14	The demand for LCC airlines estimated to have an income elasticity of +0.3. Following a 15% rise in consumer's real incomes, (other factors remain constant). How can you predict the demand for LCC airlines?	05	CO2
Q 15	Explain airline's heterogeneity of product with the help of an example.	05	CO2
SECTION-C 3Qx10M=30 Marks			
Q	Attempt all the questions. Each question carries equal marks.		CO3

Q 16	<p>“ If demand is elastic, comparatively lower price will benefit the airline operator, if the demand is inelastic higher price will be better for him.” Discuss and examine the role of price elasticity in airline business decision with the help of imaginary figures.</p>	10	CO3
Q 17	<p>Suppose you are handling Marketing Division of Airline ‘X’ and you are assigned to devise a pricing to face the pandemic effects. In this context, explain the following</p> <p>A. Discuss the elements of sound pricing decisions B. Pricing in different situations C. Which pricing method you would suggest to your airline and reasons for it.</p>	10	CO3
Q 18	<p>“Managing an airline is complicated because pricing, output, advertising, and investment decisions involve important strategic considerations. Because only a few firms are competing, each firm must carefully consider how its actions will affect its rivals, and how its rivals are likely to react [in response, say, to a price cut intended to stimulate sluggish sales]..... These strategic considerations can be complex. When making decisions, each firm must weigh its competitors’ reactions, knowing that those competitors will also weigh its reactions to their decisions. Furthermore, decisions, reactions, reactions to reactions, and so forth are dynamic, evolving over time. When the managers of a firm evaluate the potential consequences of their decisions, they must assume that their competitors are as rational as they are. They must put themselves in their competitors’ place and consider how they would react.” Analyze the statement.</p>	10	CO3

SECTION-D
2Qx15M= 30 Marks

Q	Attempt all the questions. Each question carries equal marks.		CO4													
	<p style="text-align: center;">Continental Airlines</p> <p>When considering adding a new flight (or dropping an existing one that appears to be doing poorly). Continental engages in a very thorough incremental analysis along the lines given in the table.</p> <p>Incremental Analysis as Employed by Continental Airlines</p> <table border="1" style="width: 100%;"> <tr> <td>Problem</td> <td colspan="2">Shall Continental run an extra daily flight from City X to City Y?</td> </tr> <tr> <td rowspan="3">The Facts</td> <td>Fully allocated costs of this flight</td> <td style="text-align: right;">\$ 4,500</td> </tr> <tr> <td>Out-of-pocket costs of this flight</td> <td style="text-align: right;">\$ 2,000</td> </tr> <tr> <td>Flight should gross</td> <td style="text-align: right;">\$ 3,100</td> </tr> <tr> <td>Decision</td> <td colspan="2">Run the flight. It will add \$ 1,100 to net profit by adding \$3,100 to revenues and only \$ 2,000 to costs. Overheads and other costs totaling \$2,500 (\$ 4,500 minus \$ 2,000) would be incurred whether the flight is running or not. Therefore, fully allocated or “average” costs of \$ 4,500 are not relevant to this business decision. It is the out-of-pocket or incremental costs that count.</td> </tr> </table>	Problem	Shall Continental run an extra daily flight from City X to City Y?		The Facts	Fully allocated costs of this flight	\$ 4,500	Out-of-pocket costs of this flight	\$ 2,000	Flight should gross	\$ 3,100	Decision	Run the flight. It will add \$ 1,100 to net profit by adding \$3,100 to revenues and only \$ 2,000 to costs. Overheads and other costs totaling \$2,500 (\$ 4,500 minus \$ 2,000) would be incurred whether the flight is running or not. Therefore, fully allocated or “average” costs of \$ 4,500 are not relevant to this business decision. It is the out-of-pocket or incremental costs that count.			
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	<p>The corporate philosophy is clear: “If revenues exceed out-of-pocket costs, put the flight on.” In other words, Continental compares the out-of-pocket”, or incremental, costs associated with each proposed flight to the total revenues generated by that flight. An excess of revenues over incremental costs leads to a decision to add the flight to Continental’s Schedule.</p> <p>The “out-of-pocket costs” figures that Continental uses is obtained by circulating a proposed schedule for the new flight to every operating department concerned and finding out what added expenses will be incurred by each of them. Here an alternative cost concept is used. If a ground crew is on duty and between work on other flights, the proposed flight is not charges a penny of their salary. Some costs may even be reduced by the additional flight. For example, on a late night round trip flight between Colorado Springs and Denver, Continental often flies without any passengers and with only a small amount of freight. Even without passenger revenues, these flights are profitable because their net costs are less than the rent for overnight space at Colorado Springs.</p> <p>On the revenue side, Continental considers not only the projected revenues for the flights but also the effect on revenues of competing and connecting flights on the Continental Schedule. Several Continental flights which fail to cover even their out-of-pocket costs directly bring in passengers for connecting long-haul service. When the excess of additional revenue over cost on the long-haul flight is considered, Continental earns a positive net profit on the feeder service.</p> <p>Continental’s use of incremental analysis extends to its scheduling of airport, arrival and departure times. A proposed schedule for the Kansas City at that time was not sufficient to service two plans simultaneously. Continental would have been forced to lease an extra fuel truck and to hire three new employees at an additional monthly cost of \$ 1,800. However, when Continental began shifting around proposed departure times in other cities to avoid the congestion at Kansas City, it appeared that the company might lose as much as \$ 10,000 in monthly revenues if passengers switched to competing flights leaving at more convenient hours. Needless to say, the two flights were scheduled to be on the ground at the same time in Kansas City.</p>		
Q 19	Discuss how Continental Airlines used incremental analysis in its flight service decisions.	15	CO4
Q 20	Also demonstrate the usefulness of the technique.	15	CO4